TESCO CORPORATE TREASURY SERVICES PLC

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE 52 WEEKS ENDED 27 FEBRUARY 2021

Registered Number: 08629715

TESCO CORPORATE TREASURY SERVICES PLC

STRATEGIC REPORT FOR THE 52 WEEKS ENDED 27 FEBRUARY 2021

The Directors present their Strategic Report of Tesco Corporate Treasury Services PLC (the "Company") for the 52 weeks ended 27 February 2021 (prior period: 53 weeks ended 29 February 2020).

Instances of the "Group" make reference to Tesco PLC and its subsidiaries which includes the Company.

Business review and principal activity

The principal activity of the Company is to act as a financing company for certain Tesco Group subsidiaries, joint ventures and associates and also undertake activities to hedge the financial risks to the Group. The Company issues debt under medium term note programmes and provides funding to Tesco Group companies, joint ventures and associates.

There has been no significant change in the nature of this activity during the period and the Directors do not expect this to change significantly throughout the next financial period. The level of this activity has increased with the Company entering into derivative contracts to hedge the external exposure as a result of the sale by the Tesco Group of its Asia business, details of the disposal are discussed on pages 138 to 139 of the Tesco PLC Annual Report 2021, which does not form part of this Report. The level of this activity is expected to return to previous levels throughout the next financial period. During the period inter-company lending and borrowing decreased, partly as a result of the sale by the Tesco Group of its Asia and Poland businesses, which had significant lending and borrowing with the Company. This reduced both interest receivable on inter-company lending and interest payable on inter-company borrowing.

Future outlook

The Company's performance is expected to remain in line with the current period throughout the next financial period.

The Company's future developments form a part of the Group's long-term strategy, which is discussed on page 7 to the Tesco PLC Annual Report 2021, which does not form part of this Report.

Results and dividends

The results for the 52 weeks ended 27 February 2021 show a pre-tax loss of £165m (2020: pre-tax loss of £64m) driven largely by fair value remeasurements of financial instruments. Net assets decreased to £906m (2020: £1,576m) in the year largely reflecting a dividend payment of £500m and the pre-tax loss.

The Directors do not recommend payment of an additional dividend for the 52 weeks ended 27 February 2021 (2020: £nil).

Capital structure

Details of the authorised and issued share capital are shown in Note 15.

Key performance indicators (KPIs)

Given the straightforward nature of the business, the Directors are of the opinion that analysis using key performance indicators is not necessary for an understanding of the development, performance or position of the business.

The development, performance and position of the operations of the Group is discussed on page 11 of the Tesco PLC Annual Report and Financial Statements 2021, which does not form part of this Report.

Principal risks and uncertainties

Business risk

The Brexit risk has decreased since last year with the signing of the UK-EU Trade and Cooperation Agreement. However uncertainty around the UK's future trading relationship with the EU still exists and a failure to prepare for all eventualities could have an adverse effect on the Group's primary business, its financial results and operations. The Tesco PLC Board continues to assess and monitor the potential risks and impacts on the Company and its stakeholders as a whole, while taking mitigation measures to address challenges as appropriate.

The on-going global COVID-19 pandemic may have a significant and prolonged impact on global economic conditions and cause disruption to financial markets.

Failure to adapt to these changing circumstances could have an adverse effect on the Group's business, operations and results. Our Group business continuity and crisis management plans have been mobilised and additional measures have been implemented including increasing our retail store colleague headcount (with redeployment of colleagues where possible), securing additional supply chain capacity to meet changes in demand (including measures to prevent customer stockpiling), implementing changes to stores (including hours, additional security, hygiene and social distancing measures), and extending support to colleagues and customers at increased risk. The availability of cash resources and committed facilities together with strong cash flow, support the Group's ability to take this action to maintain liquidity and longer-term viability. The PLC Board continues to monitor the impact of the pandemic and Government restrictions, this includes modelling various scenarios to understand potential outcomes on our business and plan appropriately.

The main risks faced by the Company are financial risks and relate to the availability of funds to meet business needs, fluctuations in interest and foreign exchange rates and credit risks relating to the risk of default by counterparties to financial transactions. The management of these risks is set out below and further information can be found in Note 14 to the financial statements.

Other risks and uncertainties are integrated with the principal risks of Tesco PLC and its subsidiaries (the "Group") which includes the Company. These are not managed separately and, accordingly, we refer to pages 31 to 37 of the Tesco PLC Annual Report 2021, which does not form part of this Report.

Internal control and risk management systems

The Company acts as a financing company for certain Tesco PLC, Group subsidiaries, joint ventures and associates only, and therefore the internal control and risk management systems of the Company are aligned with those of the Group, which is discussed on pages 31 to 37 of the Tesco PLC Annual Report and Financial Statements 2021, which does not form part of this Report.

Funding and liquidity

The Company may finance its operations by using a combination of debt capital market issuances, commercial paper, inter-Group borrowings and bank borrowings. The objective is to ensure continuity of funding. The policy is to smooth the debt maturity profile and to arrange funding ahead of requirements.

Interest rate risk management

Our objective is to limit the impact to our comprehensive income from rising interest rates. Forward rate agreements, interest rate swaps, caps and floors may be used to achieve the desired mix of fixed and floating rate debt.

Foreign currency risk management
The Company is exposed to foreign exchange risk principally via non-GBP inter-company loans to and from non-UK subsidiaries and Medium Term Notes (MTNs) issued in currencies other than GBP. Where appropriate these are hedged via foreign currency derivatives and borrowings in matching currencies. The former are not formally designated as hedges and gains and losses on hedged items and hedged loans will naturally offset. Whereas MTNs are formally designated hedges, where the Company enters derivatives with matching notional values.

Credit risk
The objective is to reduce the risk of loss arising from default by counterparties to financial transactions. The Company holds positions with an approved list of counterparties of good credit quality and these counterparties and their credit ratings are routinely monitored.

Other risks
Other risks and uncertainties are integrated with the principal risks of the Tesco PLC and its subsidiaries (the "Group") which includes the Company. These are not managed separately and, accordingly, we refer to pages 31 to 37 of the Tesco PLC Annual Report 2021, which does not form part of this Report.

Section 172(1) Statement

Section 172 of the Companies Act 2006 requires a director of a company to act in the way he or she considers, in good faith, would most likely promote the success of the company for the benefit of its members as a whole. In doing this section 172 requires a director to have regard, amongst other matters, to the:

- likely consequences of any decisions in the long-term;
- interests of the company's employees;
- need to foster the company's business relationships with suppliers, customers and others;
- impact of the company's operations on the community and environment;
- desirability of the company maintaining a reputation for high standards of business conduct, and
- need to act fairly as between members of the company.

In discharging our section 172 duties the Directors have regard to the factors set out above. The Directors also have regard to other factors which we consider relevant to the decision being made. Those factors, for example, include the interests and views of members of the Tesco Group, Joint Venture Partners and associates, our relationship with our external lenders and investors, our relationship with the regulators and Tesco PLC as our shareholder and its relationship with rating agencies. We acknowledge that every decision we make will not necessarily result in a positive outcome for all of our stakeholders. By considering the Company's purpose, vision and values together with its strategic priorities and having a process in place for decision-making, we do, however, aim to make sure that our decisions are consistent and predictable.

We delegate authority for day-to-day running of the Company to Senior Management in overseeing and executing our business strategy and related policies. Board meetings are held periodically where the directors consider material issues requiring a board decision. As a part of those meetings the directors receive information in a range of different formats which includes information relevant to section 172 matters when making relevant decisions. For example, each year we make an assessment of the strength of the Company's balance sheet and future prospects relative to market uncertainties and make decisions about the payment of dividends.

STRATEGIC REPORT FOR THE 52 WEEKS ENDED 27 FEBRUARY 2021 (continued)

Section 172(1) Statement (continued)

The Board has made some key strategic decisions during the year ended 27 February 2021 where due consideration was given to the Group's stakeholders, including:

Board activity	Board Consideration
Debt Capital Management	During the year, the Directors considered the issuance of new bonds and public tender offers to purchase outstanding Notes under the Company's Medium Term Note Programme giving consideration to the Company's external debt holders, the financial benefits to the Tesco Group and the risks to the Company. During these considerations, the Directors reviewed the financial position of the Company and the long-term viability of the Company to ensure that its future liabilities could be met and considered that these activities would not have a detrimental effect on the bond holders. The Directors also considered the Group's uncommitted external funding arrangements and managing its relationship with external lenders, rating agencies and regulators. The Directors also considered the financial position of the Company in relation to the payment of a dividend.
Intragroup lending	Throughout the year, the Directors reviewed existing and approved entry into new intragroup lending agreements giving consideration to the financial benefits and risks to the Company and the financial and operational benefits to the Tesco Group. In reaching its final decision, the Directors had regard to a number of factors including: the business case and financial returns; security of return; risk management; any impacts on Tesco colleagues, suppliers, customers, communities and the environment; and the long-term reputation of the Company.
Tesco Group	A key objective of the Board is to create value for the Tesco Group through ensuring foreign exchange rate hedging to mitigate economic market risk and the provision of financing support to the Group's subsidiary companies.

In accordance with requirements this section 172(1) statement will be published on the Tesco PLC website at www.tescoplc.com.

Approval by the Board on 21st June 2021, and signed on behalf of the Board by:

Lynda Heywood

Lynda Heywood
Director
Tesco Corporate Treasury Services PLC
Registered Number: 08629715
Registered Office: Tesco House, Shire Park, Kestrel Way, Welwyn Garden City, AL7 1GA.

TESCO CORPORATE TREASURY SERVICES PLC

DIRECTORS' REPORT FOR THE 52 WEEKS ENDED 27 FEBRUARY 2021

The Directors present their Annual Report and the audited financial statements of Tesco Corporate Treasury Services PLC (the "Company") for the 52 weeks ended 27 February 2021 (prior period: 53 weeks ended 29 February 2020).

Results and dividends

Details of results and dividends can be found in the Strategic Report on page 2.

Future outlook

This is discussed in the Strategic Report on page 2.

Political donations

There were no political donations for the period (2020: none) and the Company did not incur any political expenditure (2020: none).

Research and development

The Company does not undertake any research and development activities (2020: none).

Financial risk management and use of financial instruments

This is discussed on pages 2 and 3 of the Strategic Report.

Going concern

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for a period of at least twelve months from the date of signing these financial statements and therefore continued to adopt the going concern basis in preparing the annual financial statements. The going concern basis has been adopted based on the expectation that it is not the current intention of any other Group company to withdraw funding. The Directors have had regard to the risk factors which arise from COVID-19 outlined in the Strategic Report, this includes the recoverability of loans.

Events after the reporting period

Details of events after the reporting period can be found in Note 18 to the financial statements.

Employees

The Company had no employees during the period (2020: none).

Directors

The following Directors served during the period and up to the date of signing these financial statements.

Lynda Heywood
Alan Stewart (resigned 30/04/2021)
Tesco Services Limited
Imran Nawaz (appointed 01/05/2021)

None of the Directors had any disclosable interests in the Company during this period.

Directors' Indemnities

A qualifying third-party indemnity provision as defined in Section 234 of the Companies Act 2006 is in force for the benefit of the Tesco PLC Director listed above and the Tesco PLC Company Secretary (who is also a Director of Tesco Services Limited which is appointed to the Board of the Company) in respect of liabilities incurred as a result of his office, to the extent permitted by law. In respect of those liabilities for which Directors and Officers may not be indemnified, Tesco PLC maintained a Directors' and Officers' liability insurance policy throughout the financial period and up to the date of signing the financial statements.

Cautionary statement regarding forward-looking information

Where this document contains forward-looking statements, these are made by the Directors in good faith based on the information available to them at the time of their approval of this Report. These statements should be treated with caution due to inherent risks and uncertainties underlying any such forward-looking information. A number of factors, including those in this document, could cause actual results to differ materially with those contained in any forward-looking statement.

Modern Slavery Act

As per section 54(1) of the Modern Slavery Act 2015, The Group's Slavery and Human Trafficking Statement is published annually on the Tesco PLC Group website. The statement covers the activities of the Tesco PLC Group and its subsidiaries and details policies, processes and actions we have taken to ensure that slavery and human trafficking are not taking place in our supply chains or any part of our own business.

Corporate governance considerations

Disclosures required under the Disclosure and Transparency Rules ("DTR")

Statutory Reporting

The monitoring of the financial reporting and statutory audit of the Tesco PLC Group (the ''Group''), which includes the Company is discussed on pages 66 to 71 of the Tesco PLC Annual Report and Financial Statements 2021.

Other required disclosures

For the 52 weeks ended 27 February 2021, the Company did not have securities carrying voting rights admitted to trading on a regulated market and therefore disclosures required by paragraph 13 of Schedule 7 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410) are not applicable.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial period. Under that law the Directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practices (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard 101 *Reduced Disclosure Framework* ("FRS 101").

Statement of Directors' responsibilities (continued)

Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards, including FRS 101 have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify its shareholders in writing about the use of disclosure exemptions, if any, of FRS 101 used in the preparation of financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislations in other jurisdictions.

Independent auditor

Deloitte LLP, having indicated its willingness to continue in office, will be deemed to be reappointed as auditor under section 487(2) of the Companies Act 2006.

Disclosure of information to auditor

Each Director who is a Director of the Company at the date of approval of these financial statements confirms that:

- so far as the Directors are aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the Directors have taken all the steps that they ought to have taken as a Director to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Approved by the Board on 21st June 2021, and signed on behalf of the Board by:

Lynda Heywood

Lynda Heywood
Director
Tesco Corporate Treasury Services PLC
Registered Number: 08629715
Registered Office: Tesco House, Shire Park, Kestrel Way, Welwyn Garden City, AL7 1GA.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TESCO CORPORATE TREASURY SERVICES PLC

Report on the audit of the financial statements

1. Opinion

In our opinion the financial statements of Tesco Corporate Treasury Services Plc (the 'company'):

- give a true and fair view of the state of the company's affairs as at 27 February 2021 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity;
- the related notes 1 to 18.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.
We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the company.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Summary of our audit approach

Key audit matters	The key audit matters that we identified during the current reporting period were: • potential for error or manipulation in calculating and recording the 'mark-to-market' value of cross currency, interest rate and index-linked swaps; and • potential for error or manipulation in calculating and recording the credit and debit valuation adjustments which are applied to those swaps.
Materiality	The materiality that we used in the current year was £27m which was determined on the basis of 3% percent of the company's net assets.
Scoping	Our audit was scoped based on our understanding of the company, its internal control, our risk assessment and our materiality.

Significant changes in our approach	Our materiality in the current year audit has been based on a percentage of the company's net assets, whereby our materiality in the previous years' audit was based on a percentage of the company's total assets. See section 6.1 for the rationale for the change in our materiality benchmark.

4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.
Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- evaluating the role of the company within the Tesco Group and the intention of the Group to keep the company in existence;
- the company's year-end liquidity position, including an assessment its levels of cash and short-term investments compared with its current liabilities; and
- the financing facilities available to the company, including the ability to raise finance via its Medium-Term Note ('MTN') programme.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.
Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.
These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

5.1. Potential for error or manipulation in calculating and recording the 'mark-to-market' value of cross currency swaps, interest rate swaps and index-linked swaps

Key audit matter description	As at 27 February 2021, the collective net value of the company's cross currency swaps, interest rate swaps and index-linked swaps (the 'swap instruments') was £(62m) (2020: £34m). These derivatives comprise a mixture of trades entered into with external banks, as well as a number of internal, 'back-to-back' trades with other Tesco Group entities. The swap instruments are valued by calculating the net discounted future cash flows arising from each instrument (the 'mark-to-market' valuation), plus or minus an adjustment to reflect credit risk (see section 5.2 below). There is a risk that the mark-to-market valuations recorded in the company's accounting systems for the swap instruments are not appropriate because: • the inputs used by management, such as forward rates, discount curves and cash flows, when valuing the trades using third party valuation tools are not appropriate; and/or • the valuations produced by management using third party valuation tools do

	not reflect the contractual terms of the instruments themselves; and/or • the methodology used by management when valuing the swap instruments using third party valuation tools is not appropriately and consistently applied. All of the above pose a risk of fraud or error which may result in Income Statement volatility. Further details are included within the Derivative financial instruments and hedge accounting section at Note 2 to the financial statements, as well as the critical judgements and estimates section at Note 2 and within the financial risk factors tables in Note 14.
How the scope of our audit responded to the key audit matter	We assessed the appropriateness of the methodology used by management when valuing the swap instruments. We selected a sample of internal and external derivative trades and valued these positions independently using third party tools, including Bloomberg, FastVal and Reval. These valuations were performed based on the terms of the trade contracts and market data (such as forward discount curves) obtained from these third-party tools. We compared our independent valuation against the valuations recorded in the General Ledger and assessed the variances against risk-based thresholds we consider acceptable for these types of instruments. We performed independent substantive testing to ensure the mark-to-market valuations of the external and corresponding back-to-back internal derivative trades offset as expected.
Key observations	Based on the procedures performed, we have concluded that the mark-to-market valuations of cross currency, interest rate and index-linked swaps are reasonable.

5.2. Potential for error or manipulation in recording the credit and debit valuation adjustments to the reported 'mark-to-market' valuation of derivative financial instruments

Key audit matter description	As described above, management adjusts the reported fair values of its swap instruments to reflect default risk by posting a credit or debit valuation adjustment ('CVA/DVA'), with CVA reflecting the credit risk of the counterparty and DVA reflecting the company's own risk of default. For external trades, these adjustments are estimated by reference to observable, traded counterparty and Tesco Plc credit default swap ('CDS') spreads. For internal trades, management estimates the CVA/DVA by reference to Tesco Plc CDS spreads only (as the counterparty is another Tesco entity). The mismatch between the CVA/DVA on external and internal derivative instruments creates volatility in the Income Statement. Management uses Bloomberg in order to estimate the CVA/DVA to be posted against cross currency swaps and interest rate swaps (which had a collective fair value of £18m at the balance sheet date). Management use alternative models populated with market data extracted from Bloomberg for index-linked swaps (which had a fair value of (£80m) at the balance sheet date). We note that the inputs used for index-linked swaps include cash flows, recovery rates and the credit spreads used to estimate the probability of default for cash flows occurring beyond the maximum tenor (10 years) of observable CDS curves, are judgemental in nature. Further details are included within the Derivative financial instruments and hedge accounting section at Note 2 to the financial statements.
How the scope of our audit responded to the key audit matter	We obtained a detailed understanding of controls over the estimation of credit adjustments. For a sample of CVA/DVA adjustments calculated using Bloomberg, we recalculated the CVA/DVA on these trades independently, using credit spreads and discount rates obtained from third party valuation tools. We compared the results of our independent

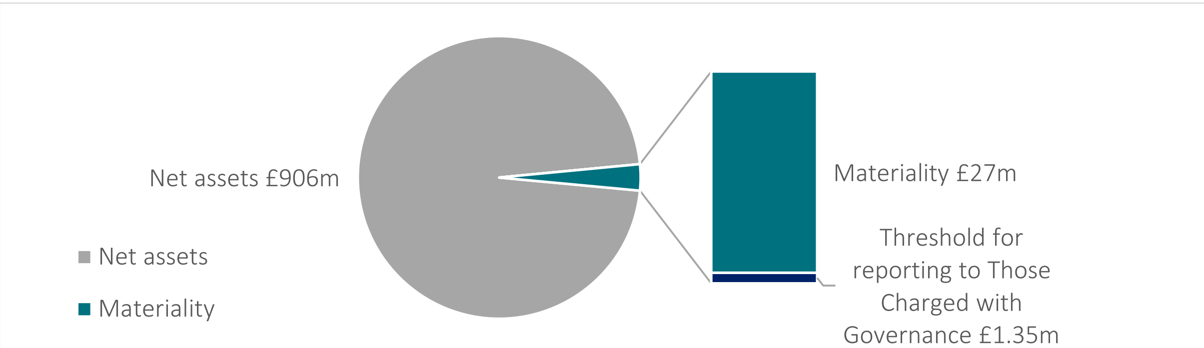
	CVA/DVA calculations to those recorded in the General Ledger and assessed any resulting variances against thresholds we consider acceptable for this type of instrument. For a sample of CVA/DVA adjustments calculated for index-linked swaps, we assessed the logic and consistency applied in the methodology and assessed the reasonableness of the key inputs and assumptions used (such as cash flows, credit spreads and discount factors) by comparing them to those independently obtained by us through third party valuation tools and sources of market data.
Key observations	Based on the procedures performed, we have concluded that the CVA/DVA applied to the swap instruments are reasonable.

6. Our application of materiality

6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.
Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Materiality	£27m (2020: £55.25m)
Basis for determining materiality	3% of net assets (2020: 0.39% of total assets).
Rationale for the benchmark applied	The company acts as a financing company for other Tesco entities and its role is therefore to act as a treasury function, rather than to generate income. We therefore concluded that profit-based on income-based materiality benchmarks would be inappropriate. In the current year, we concluded that the net assets of the company would be a more appropriate materiality benchmark, compared with total assets used previously. The reasons for the change include: • We consider the net assets of the company to be a more relevant metric for the users of the financial statements as this metric better reflects the overall financial strength of the company; and • We would expect the net assets of the company to represent a more consistent metric upon which to base materiality in the longer term, as the total assets of the company can be subject to volatility based on factors such as the levels of intercompany lending, the valuation of derivatives and the issuance of new debt instruments.



6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 70% of materiality for the 2021 audit (2020: 70%). In determining performance materiality, we considered the following factors:

- our risk assessment, where we concluded that the number of risks which we have classified as having a higher or significant risk of material misstatement was not disproportionally high compared to the overall number of risks identified; and
- the company's business operations, transaction processes and control environment, which have remained consistent compared with the previous year.

6.3 Error reporting threshold

We agreed with Those Charged with Governance that we would report to them all audit differences in excess of £1.35m (2020: £2.76m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to Those Charged with Governance on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

Our audit scope is based on our understanding of the company and its internal control, our risk assessment and our materiality. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

8. Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained in the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

9. Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

10.Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

11.Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1.Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the company's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management and Those Charged with Governance about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the company's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and relevant internal specialists, including financial instrument specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: the calculating and recording of the 'mark-to-market' value of derivative swap instruments, together with their corresponding debit and credit valuation adjustments. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the company operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act and the Listing Rules.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty.

11.2. Audit response to risks identified

As a result of performing the above, we identified the potential for error and manipulation in calculating and recording the mark-to-market value of derivative swap instruments, together with their corresponding credit and debit valuation adjustments as key audit matters related to the potential risk of fraud. The key audit matters section of our report explains those matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

Our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management and Those Charged with Governance concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12. Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

13. Matters on which we are required to report by exception

13.1. Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

13.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in respect of this matter.

14. Other matters which we are required to address

14.1. Auditor tenure

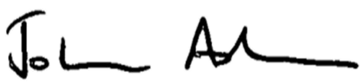
Following the recommendation of Those Charged with Governance, we were appointed by the Group's shareholders on 26 June 2015 to audit the financial statements for the 52 weeks ending 27 February 2016 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 6 periods of 52 or 53 weeks each, covering the periods ending 27 February 2016 to 27 February 2021.

14.2. Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

15. Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



John Adam (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
21 June 2021

TESCO CORPORATE TREASURY SERVICES PLC

STATEMENT OF COMPREHENSIVE INCOME FOR THE 52 WEEKS ENDED 27 FEBRUARY 2021

	Notes	**52 weeks to 27 February 2021 £m**	53 weeks to 29 February 2020 £m
Income statement			
Administration expenses		**(5)**	(4)
Operating loss		**(5)**	(4)
Net impairment of receivables		**(1)**	1
Finance income	5	**178**	315
Finance costs	6	**(337)**	(376)
Loss on ordinary activities before taxation		**(165)**	(64)
Tax on loss on ordinary activities	7	**-**	-
Loss for the financial period		**(165)**	(64)
Other comprehensive income			
Items that may subsequently be reclassified to profit/(loss)			
Gains / (losses) on cash flow hedges			
Net fair value (losses)/gains		**24**	(20)
Reclassified and reported in the Income Statement		**(30)**	11
Deferred tax on cash flow hedge	7	**1**	2
		(5)	(7)
Total comprehensive loss for the financial period		**(170)**	(71)

The notes on pages 20 to 40 form an integral part of these financial statements. The above results were derived from continuing operations.

TESCO CORPORATE TREASURY SERVICES PLC

BALANCE SHEET AS AT 27 FEBRUARY 2021

	Notes	**27 February 2021 £m**	29 February 2020 £m
Non-current assets			
Derivative financial instruments	14	240	306
Receivables	8	6,363	5,845
Deferred tax asset	11	1	-
Total non-current assets		6,604	6,151
Current assets			
Derivative financial instruments	14	103	91
Receivables	8	3,574	6,465
Short-term investments	9	1,009	1,076
Cash and cash equivalents		2	289
Total current assets		4,688	7,921
Total assets		11,292	14,072
Current liabilities			
Borrowings	12	(345)	(799)
Derivative financial instruments	14	(109)	(97)
Payables	10	(3,431)	(6,516)
Total current liabilities		(3,885)	(7,412)
Net current assets		803	509
Total assets less current liabilities		7,407	6,660
Non-current liabilities			
Borrowings	12	(3,176)	(2,371)
Payables	10	(3,026)	(2,435)
Derivative financial instruments	14	(299)	(278)
Net assets		906	1,576
Equity			
Share capital	15	100	100
Share premium	16	100	100
Cash flow hedge reserve		(4)	(2)
Cost of hedging reserve		-	3
Retained earnings		710	1,375
Total equity		906	1,576

The notes on pages 20 to 40 form an integral part of these financial statements. The financial statements of Tesco Corporate Treasury Services PLC, registration number: 08629715 on pages 17 to 40 were approved and authorised for issue by the Board of Directors on 21st June 2021 and were signed on its behalf by:

Lynda Heywood

Lynda Heywood
Director
Registered Number: 08629715
Registered Office: Tesco House, Shire Park, Kestrel Way, Welwyn Garden City, AL7 1GA.
21st June 2021

TESCO CORPORATE TREASURY SERVICES PLC

STATEMENT OF CHANGES IN EQUITY FOR THE 52 WEEKS ENDED 27 FEBRAURY 2021

	Share Capital and Premium (i) £m	Cost of Hedging reserve £m	Cash flow hedge reserve £m	Retained earnings (ii) £m	Total equity £m
At 29 February 2020	**200**	**3**	**(2)**	**1,375**	**1,576**
Loss for the financial period	-	-	-	(165)	(165)
Gains/(losses) on cash flow hedges	-	(4)	(2)	-	(6)
Deferred tax credit on cash flow hedge	-	1	-	-	1
Total comprehensive loss	**-**	**(3)**	**(2)**	**(165)**	**(170)**
Dividends	-	-	-	**(500)**	**(500)**
At 27 February 2021	**200**	**-**	**(4)**	**710**	**906**
At 23 February 2019	**200**	**7**	**1**	**1,439**	**1,647**
Loss for the financial period	-	-	-	(64)	(64)
Gains/(losses) on cash flow hedges	-	(5)	(4)	-	(9)
Deferred tax credit on cash flow hedge	-	1	1	-	2
Total comprehensive loss	**-**	**(4)**	**(3)**	**(64)**	**(71)**
At 29 February 2020	**200**	**3**	**(2)**	**1,375**	**1,576**

(i) See Note 15 and 16 for a breakdown of the Share Capital and Premium.
(ii) Details of results and dividends can be found in the Strategic Report on page 1. The dividend per share for the period was £5.00 (2020: nil).

TESCO CORPORATE TREASURY SERVICES PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE 52 WEEKS ENDED 27 FEBRUARY 2021

1. AUTHORISATION OF FINANCIAL STATEMENTS AND STATEMENT OF COMPLIANCE WITH FRS 101

The financial statements of Tesco Corporate Treasury Services PLC (the "Company") for the 52 weeks ended 27 February 2021 were approved by the Board of Directors on 21st June 2021 and the balance sheet was signed on the Board's behalf by Lynda Heywood. Tesco Corporate Treasury Services PLC is a public limited company and is incorporated and domiciled in the United Kingdom and registered in England and Wales.

These financial statements were prepared in accordance with Financial Reporting Standard 101 "Reduced Disclosure Framework" (FRS 101). The financial statements have been prepared under the historical cost convention and the Companies Act 2006 as modified by the fair value measurement of derivatives.

2. ACCOUNTING POLICIES

General information and Basis of preparation

Tesco Corporate Treasury Services PLC is a company limited by shares incorporated in the United Kingdom under the Companies Act 2006. The address of the registered office is given on page 18. The nature of the Company's operations and its principal activities are set out in the Strategic Report on pages 2 to 5.

These financial statements have been prepared in accordance with Financial Reporting Standard 101, Reduced Disclosure Framework ("FRS 101") and the Companies Act 2006 (the "Act"). FRS 101 sets out a reduced disclosure framework for a 'qualifying entity' as defined in the standard which addresses the financial reporting requirements and disclosure exemptions in the individual financial statements of qualifying entities that otherwise apply the recognition, measurement and disclosure requirements of EU-adopted IFRS.

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company has adequate resources to continue in operational existence for a period of at least twelve months and therefore continued to adopt the going concern basis in preparing the annual financial statements.

The Company is a qualifying entity for the purposes of FRS 101. Note 17 gives details of the Company's parent and from where its consolidated financial statements prepared in accordance with IFRS may be obtained.

The disclosure exemptions adopted by the Company in accordance with FRS 101 are as follows:

- The requirements of paragraphs 10(d), 10(f), 39(c) of IAS 1 Presentation of Financial Statements;
- The requirements of IAS 7 Statement of Cash Flows;
- The requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors; and
- The requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.

The Company is a financial institution for the purposes of FRS 101 and therefore may not take advantage of the exemptions from IFRS 7 Financial Instruments: Disclosures, paragraphs 91 to 99 of IFRS 13 Fair Value Measurement, and paragraphs 134 to 136 of IAS 1 Presentation of Financial Statements.

The following standard amendments were adopted in the current financial year and further details of their impact on the financial statements are given in Note 14.

- 'Interest rate benchmark reform Phase 2' amendments to IFRS 9 – Financial Instruments and IFRS 7 – Financial Instruments – Disclosures , which have been adopted early.

2. ACCOUNTING POLICIES (continued)

Critical accounting judgements and key sources of estimation uncertainty
In the application of the Company's accounting policies the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The directors consider there to be critical judgements in determining whether financial instruments qualify for the application of hedge accounting, which are detailed in the relevant accounting policies at page 22. The determination of the carrying value of derivative financial instruments requires assumptions to be made about their future cash flows and has therefore been considered to be a key accounting estimate. Further information on these instruments and how they are valued is contained in Notes 13 and 14.

Impairment of financial assets
The Company assesses on a forward-looking basis the expected credit losses (ECLs) associated with its financial assets carried at amortised cost and debt instruments at fair value through other comprehensive income. The ECLs are updated at each reporting date to reflect changes in credit risk.
The three-stage model for impairment has been applied to loan receivables from joint ventures and group undertakings. The credit risk is determined through modelling a range of possible outcomes for different loss scenarios, using reasonable and supportable information about past events, current conditions and forecasts of future events and economic conditions and taking into account the time value of money. A 12-month ECL is recognised, unless the credit risk on a financial asset increases significantly after initial recognition, when lifetime ECL is recognised.

Foreign currencies
The Company's financial statements are presented in sterling, which is also the Company's functional currency, as this is an extension of the UK based parent company for which the functional currency is sterling.

Transactions in foreign currencies are translated into pounds sterling at the exchange rate on the date of the transaction. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated into pounds sterling at the exchange rates prevailing at the balance sheet date. All foreign exchange differences are taken to the Statement of Comprehensive Income for the period.

Financial instruments
Financial assets and financial liabilities are recognised on the balance sheet when the Company becomes a party to the contractual provisions of the instrument.

Receivables
Receivables are recognised initially at fair value, and subsequently at amortised cost using the effective interest rate method, less provision for impairment.

Financial liabilities and equity instruments
Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that gives a residual interest in the assets of the Company after deducting all of its liabilities. Equity instruments issued by the Company are recorded as the proceeds received, net of direct issue costs.

Borrowings
Interest-bearing borrowings and overdrafts are initially recorded at fair value, net of attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any differences between cost and redemption value being recognised in the Statement of Comprehensive Income over the period of the borrowings on an effective interest basis.

2. ACCOUNTING POLICIES (continued)

Other payables
Other payables are recognised initially at fair value, and subsequently at amortised cost using the effective interest rate method.

Derivative financial instruments and hedge accounting
The Company uses derivative financial instruments to hedge its own and the Group's exposure to foreign exchange and interest rate risks arising from operating, financing and investing activities. The Company does not hold or issue derivative financial instruments for trading purposes; however, if derivatives do not qualify for hedge accounting they are accounted for as fair value through profit and loss (FVTPL).

Derivative financial instruments are recognised and stated at fair value. Where derivatives do not qualify for hedge accounting, any gains or losses on re-measurement are immediately recognised in the Statement of Comprehensive Income. Where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the hedge relationship and the items being hedged.

In order to qualify for hedge accounting, the Company is required to document from inception, the relationship between the item being hedged and the hedging instrument. The Company is also required to document and demonstrate an assessment of the relationship between the hedged item and the hedging instrument, which shows that the hedge will be highly effective on an on-going basis. This effectiveness testing is performed at each reporting date to ensure that the hedge remains highly effective.

Derivative financial instruments with maturity dates of more than one year from the balance sheet date are disclosed as non-current.

Interest income
Interest income is recognised when it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Cash flow hedging
Derivative financial instruments are classified as cash flow hedges when they hedge the Company's exposure to variability in cash flows that are either attributable to a particular risk associated with a recognised asset or liability, or a highly probable forecasted transaction. The effective element of any gain or loss from re-measuring the derivative instrument is recognised directly in equity.

The associated cumulative gain or loss is removed from equity and recognised in the Statement of Comprehensive Income in the same period during which the hedged transaction affects the Statement of Comprehensive Income. The classification of the effective portion when recognised in the Statement of Comprehensive Income is the same as the classification of the hedged transaction. Any element of the re-measurement criteria of the derivative instrument which does not meet the criteria for an effective hedge is recognised immediately in the Statement of Comprehensive Income.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting or is de-designated. At that point in time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs or the original hedged item affects the Statement of Comprehensive Income. If a forecasted hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the Statement of Comprehensive Income.

Fair value hedging
Derivative financial instruments are classified as fair value hedges when they hedge the Company's exposure to changes in the fair value of a recognised asset or liability. Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the Company's income statement, together with any changes in the fair value of the hedged item that is attributable to the hedged risk.

2. ACCOUNTING POLICIES (continued)

Current taxation
Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date. The tax currently payable is based on taxable profit for the period. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible.

Group relief on taxation
The Company may receive or surrender group relief from group companies without payment and consequently there may be no tax charge in the Statement of Comprehensive Income.

Deferred tax
Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future. The carrying amount of deferred tax assets is reviewed at each Balance Sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited in other comprehensive income or other equity, in which case deferred tax is also dealt with in other comprehensive income or other equity.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

3. AUDITOR'S REMUNERATION

The auditor's remuneration for the current period of £30k (2020: £30k) was borne by another Group company. No non-audit services were provided by the auditor during the current or prior year.

4. STAFF COSTS AND DIRECTORS' REMUNERATION

The Directors received no emoluments for their services to the Company (2020: £nil).

The Company had no employees during the period (2020: none).

5. FINANCE INCOME

	2021 £m	2020 £m
Interest receivable on loans to Group undertakings	**172**	310
Interest receivable	**6**	5
Total finance income	**178**	315

6. FINANCE COSTS

	2021 £m	2020 £m
Interest payable on loans from Group undertakings	**(108)**	(221)
Interest payable on medium term notes	**(54)**	(47)
Interest payable on derivatives	**(7)**	(6)
Other interest payable	**(11)**	(17)
Financial instruments - fair value remeasurements	**(157)**	(85)
Total finance costs	**(337)**	(376)

TESCO CORPORATE TREASURY SERVICES PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE 52 WEEKS ENDED 27 FEBRUARY 2021 (continued)

7. TAXATION ON LOSS ON ORDINARY ACTIVITIES

Factors that have affected the tax charge

The Finance (No.2) Act 2015 reduced the main rate of UK corporation tax to 19%, effective from 1 April 2017. A further reduction in the UK corporation tax rate to 17% was expected to come into effect from 1 April 2020 (as enacted by Finance Act 2016 on 15 September 2016). However, legislation introduced in the Finance Act 2020 (enacted on 22 July 2020) repealed the reduction of the corporation tax rate, thereby maintaining the current rate of 19%. This gives a corporation tax rate for the Company for the full period of 19% (2020: 19%).

	2021 **£m**	2020 £m
Income tax:		
UK Corporation tax on loss for the financial period	**-**	-
Deferred tax	**-**	-
Total income tax expense	**-**	-

The charge for the year can be reconciled to the profit in the Income Statement as follows:

	2021 **£m**	2020 £m
Loss on ordinary activities before tax	**(165)**	(64)
Loss on ordinary activities multiplied by the standard UK corporation tax rate of 19%	**(31)**	(12)
Effects of:		
Expenses not deductible for tax purposes	**-**	-
Group relief surrendered without payment	**31**	12
Total income tax charge for the financial period	**-**	**-**

Tax on items credited directly to the Statement of Changes in Equity

	2021 **£m**	2020 £m
Deferred tax charge/ (credit) on:		
Movement on cash flow hedges	**(1)**	(2)
Total tax on items charged to Statement of Changes in Equity	**(1)**	(2)

8. RECEIVABLES

Current assets	**2021**	2020
	£m	£m
Amounts owed by Group undertakings	**3,552**	6,445
Amounts owed by Joint ventures	**28**	28
Impairment Provision	**(6)**	(8)
	3,574	6,465

The fair value is £3,569m (2020: £6,494m).

Non-Current assets	**2021**	2020
	£m	£m
Amounts owed by Group undertakings	**6,374**	5,853
Impairment Provision	**(11)**	(8)
	6,363	5,845

The fair value is £6,428m (2020: £5,842m).

Amounts owed by Group undertakings and Joint ventures are either interest-bearing £9,922m (2020: £12,310m) or non-interest bearing £21m (2020: nil), depending on the type and duration of the debtor relationship with an interest rate between 0.58% to 8.23% (2020: 0.56% to 3.36%).

At 27 February 2021, receivables past due and impaired were nil (2020: nil) and receivables past due and not impaired were nil (2020: nil).

9. SHORT-TERM INVESTMENTS

	2021	2020
	£m	£m
Short-term investments	**1,009**	1,076
	1,009	1,076

The above short-term investments are deposits held with banks.

10. PAYABLES

Current	**2021**	2020
	£m	£m
Amounts owed to Group undertakings	**3,431**	6,516
	3,431	6,516

The fair value is £3,376m (2020: £6,340m).

Non-Current	**2021**	2020
	£m	£m
Amounts owed to Group undertakings	**3,026**	2,435
	3,026	2,435

The fair value is £3,015m (2020: £2,314m).

Amounts owed to Group undertakings are either interest-bearing £6,397m (2020: £8,665m) or non-interest bearing £53m (2020: £286m) depending on the type and duration of creditor relationship, with an interest rate of between (0.08%) to 1.22% (2020: 0.033% to 2.97%).

11. DEFERRED TAX

	Deferred tax
	£m
As at 29 February 2020	**-**
Reversal of temporary timing differences:	
In respect of the current period	**1**
Deferred tax asset	**1**

Provision for deferred tax comprises:

	2021	**2020**
	£m	**£m**
Short term timing differences	**1**	**-**
Deferred tax asset	**1**	**-**

The UK Budget 2021 announcements on 3 March 2021 included measures to support economic recovery as a result of the ongoing COVID-19 pandemic. These included an increase to the UK's main corporation tax rate to 25%, which is due to be effective from 1 April 2023. These changes were not substantively enacted at the balance sheet date and hence have not been reflected in the measurement of deferred tax balances at the period end. It is not anticipated that these changes will have a material impact on the company's deferred tax balances.

12. BORROWINGS

			2021 £m	2020 £m
Overdrafts			**312**	544
	Par Value	Maturity		
2.125% MTN	€296m	Nov 2020	-	255
1.375% MTN	€750m	Oct 2023	**662**	660
2.5% MTN	€473m	Jul 2024	**415**	653
2.5% MTN	£400m	May 2025	**417**	418
0.875% MTN	€750m	May 2026	**649**	640
0.375% MTN (i)	€750m	Jul 2029	**625**	-
2.75% MTN	£450m	Apr 2030	**441**	-
Total MTNs			**3,209**	2,626
			3,521	3,170

(i) This bond is aligned to an agreed Sustainability Performance Target (SPT) of reducing Scope 1 and 2 Group Greenhouse Gas (GHG) Emissions by 60% by 2025 against the Group's 2015 Baseline.

All MTNs are listed and guaranteed by the ultimate parent company Tesco PLC.

	2021 £m	2020 £m
Repayment analysis:		
Amounts falling due within one year	**345**	799
	345	799
Amounts falling due after more than one year:		
Amounts falling due between one and two years	**-**	-
Amounts falling due between two and five years	**1,475**	1,313
Amounts falling due after more than five years	**1,701**	1,058
	3,176	2,371
Total Borrowings	**3,521**	3,170

TESCO CORPORATE TREASURY SERVICES PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE 52 WEEKS ENDED 27 FEBRUARY 2021 (continued)

13. FINANCIAL INSTRUMENTS

The carrying value and fair value of financial assets and liabilities are as follows:

	Carrying value £m	**2021 Fair value £m**	Carrying value £m	2020 Fair value £m
Assets				
Cash and cash equivalents	**2**	**2**	289	289
Short-term investments	**1,009**	**1,009**	1,076	1,076
Cross-currency swaps	**35**	**35**	104	104
Index linked swaps	**171**	**171**	165	165
Interest rate swaps	**28**	**28**	33	33
Forward foreign currency contracts	**100**	**100**	84	84
Forward contracts	**9**	**9**	11	11
Total financial assets	**1,354**	**1,354**	1,762	1,762
Liabilities				
Borrowings				
Bonds in fair value hedge relationships	**(2,145)**	**(2,239)**	(1,293)	(1,371)
Amortised cost	**(1,376)**	**(1,440)**	(1,877)	(1,904)
Cross-currency swaps	**(37)**	**(37)**	(45)	(45)
Index linked swaps	**(248)**	**(248)**	(223)	(223)
Interest rate swaps	**(8)**	**(8)**	-	-
Forward foreign currency contracts	**(106)**	**(106)**	(96)	(96)
Forward contracts	**(9)**	**(9)**	(11)	(11)
Total financial liabilities	**(3,929)**	**(4,087)**	(3,545)	(3,650)

The fair values of financial instruments have been determined by reference to prices available from the markets on which the instruments are traded, where they are available. Where market prices are not available, the fair value has been calculated by discounting expected future cash flows at prevailing interest rates. All values shown above and those shown in note 8 and note 10 are considered to represent Level 2 valuations in the fair value hierarchy with the exception of the MTNs which are Level 1 being based on the traded prices for the relevant instruments. The above table excludes Receivables and Payables (note 8 and note 10) which have fair values equal to their carrying values, except for specific inter-company borrowing and lending (note 8 and note 10).

Fair value measurement

All of the financial assets and liabilities that are measured at fair value meet the definition of Level 2 of the fair value hierarchy:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2); and
- inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

NOTES TO THE FINANCIAL STATEMENTS FOR THE 52 WEEKS ENDED 27 FEBRUARY 2021 (continued)

13. FINANCIAL INSTRUMENTS (continued)

Financial assets and liabilities by category
The accounting classifications of each class of financial assets and liabilities as at 27 February 2021 and 29 February 2020 are as follows:

	Financial assets and liabilities at amortised cost £m	**Fair value through profit and loss £m**	**Total £m**
At 27 February 2021			
Cash and cash equivalents	**2**	-	**2**
Short term investments	**1,009**	-	**1,009**
Short term borrowings	**(345)**	-	**(345)**
Long term borrowings	**(3,176)**	-	**(3,176)**
Cross-currency swaps	-	**(2)**	**(2)**
Index-linked swaps	-	**(77)**	**(77)**
Interest rate swaps	-	**20**	**20**
Forward foreign currency contracts	-	**(6)**	**(6)**
	(2,510)	**(65)**	**(2,575)**

At 29 February 2020			
Cash and cash equivalents	289	-	289
Short term investments	1,076	-	1,076
Short term borrowings	(799)	-	(799)
Long term borrowings	(2,371)	-	(2,371)
Cross-currency swaps	-	59	59
Index-linked swaps	-	(58)	(58)
Interest rate swaps	-	33	33
Forward foreign currency contracts	-	(12)	(12)
	(1,805)	22	(1,783)

13. FINANCIAL INSTRUMENTS (continued)

Offsetting of financial assets and liabilities

The following table shows those financial assets and liabilities subject to offsetting, enforceable master netting arrangements and similar agreements.

At 27 February 2021	Gross amount of recognised financial assets/ (liabilities)	Net amount presented	Related amounts not set off in the Balance Sheet Financial Instruments	Net amount
	£m	£m	£m	£m
Financial assets offset				
Derivative financial instruments	343	343	(171)	172
Total	**343**	**343**	**(171)**	**172**
Financial liabilities offset				
Derivative financial instruments	(408)	(408)	171	(237)
Total	**(408)**	**(408)**	**171**	**(237)**
At 29 February 2020				
Financial assets offset				
Derivative financial instruments	397	397	(135)	262
Total	**397**	**397**	**(135)**	**262**
Financial liabilities offset				
Derivative financial instruments	(375)	(375)	135	(240)
Total	**(375)**	**(375)**	**135**	**(240)**

14. FINANCIAL RISK FACTORS

The main financial risks faced by the Company relate to fluctuations in interest and foreign exchange rates, the risk of default by counterparties to financial transactions, and the availability of funds to meet business needs. The management of these risks is set out below.

Risk management is carried out by a central treasury department under policies approved by the Group Board of Directors. The Board provides written principles for risk management, as described in the Principal risks and uncertainties and in Note 25 (Financial risk management) which can be found on pages 159 to 173 of the Tesco PLC Annual Report 2021 which does not form part of this Report.

Derivatives are used to hedge exposure to market risks and those that are held as hedging instruments are formally designated as hedges as defined in IFRS 9. Derivatives may qualify as hedges for accounting purposes and the Company's hedging policies are further described below.

The fair value of derivative financial instruments has been disclosed in the balance sheet as:

	2021 Asset	**2021** Liability	2020 Asset	2020 Liability
	£m	**£m**	£m	£m
Current	**103**	**(109)**	91	(97)
Non-current	**240**	**(299)**	306	(278)
Total	**343**	**(408)**	397	(375)

14. FINANCIAL RISK FACTORS (continued)

Cash flow hedges
The Company uses Cross Currency Swaps to hedge cash flows on fixed rate debt denominated in foreign currencies. Where these contracts qualify for hedge accounting, fair value gains and losses are deferred in equity. Cash flows in respect of Cash flow hedges will take place over the lifetime of the hedged items being the MTNs and will be recognised in the profit and losses over the same period.

Fair value hedges
The Company maintains interest rate swaps as fair value hedges of interest rate risk on fixed rate debt issued by the company.

Financial instruments not qualifying for hedge accounting
The Company's policy does not permit use of derivatives for trading purposes. However, some derivatives do not qualify for hedge accounting, or are specifically not designated as a hedge where gains and losses on the hedging instrument and the hedged item naturally offset in the Statement of Comprehensive Income.

These instruments include index linked swaps and forward contracts for diesel to hedge the future purchase of diesel for use within the Tesco Group. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the Statement of Comprehensive Income.

The fair value and notional amounts of derivatives analysed by hedge type are as follows:

				2021				2020
	Asset		**Liability**		Asset		Liability	
	Fair value	**Notional**	**Fair value**	**Notional**	Fair value	Notional	Fair value	Notional
	£m	**£m**	**£m**	**£m**	£m	£m	£m	£m
Fair value hedges								
Cross-Currency Swaps	**-**	**-**	**(34)**	**650**	-	-	-	-
Interest rate swaps	**28**	**1,050**	**(8)**	**450**	33	1,045	-	-
Cash flow hedges								
Cross-Currency Swaps	**-**	**-**	**-**	**-**	56	899	-	-
Derivatives not in a formal hedge relationship								
Cross-Currency Swaps	**35**	**496**	**(3)**	**86**	48	226	(45)	226
Forward foreign currency contracts	**100**	**3,219**	**(106)**	**3,601**	84	3,208	(96)	3,597
Index-linked swaps	**171**	**1,130**	**(248)**	**2,381**	165	1,607	(223)	2,026
Forward contracts	**9**	**53**	**(9)**	**53**	11	69	(11)	69
Total	**343**	**5,948**	**(408)**	**7,221**	397	7,054	(375)	5,918

TESCO CORPORATE TREASURY SERVICES PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE 52 WEEKS ENDED 27 FEBRUARY 2021 (continued)

14. FINANCIAL RISK FACTORS (continued)

The following tables set out the maturity profile, average interest rates and foreign currency exchange rates of the hedging instruments used in the Company's hedging strategies.

As at 27 February 2021	**Maturity**		
	Up to one year	**One to five years**	**More than 5 years**
Fair value hedges			
Interest rate risk			
Interest rate swaps – EUR			
-Notional amount (£m)	**-**	**650**	**-**
-Average net interest rate (pay)/receive	**-**	**0.66%**	**-**
Interest rate swaps – GBP			
- Notional amount (£m)	**-**	**400**	**450**
- Average net interest rate (pay)/receive	**-**	**1.12%**	**0.22%**
Interest rate / Foreign currency risk			
Cross currency swaps (GBP:EUR)			
-Notional amount (£m)	**-**	**-**	**650**
-Average exchange rate	**-**	**-**	**1.13**
-Average net interest rate (pay)/receive	**-**	**-**	**(0.77%)**

As at 29 February 2020	**Maturity**		
	Up to one year	**One to five years**	**More than 5 years**
Fair value hedges			
Interest rate risk			
Interest rate swaps – EUR			
-Notional amount (£m)	**-**	**645**	**-**
-Average net interest rate (pay)/receive	**-**	**(0.63%)**	**-**
Interest rate swaps – GBP			
- Notional amount (£m)	**-**	**-**	**400**
- Average net interest rate (pay)/receive	**-**	**-**	**0.40%**
Cash flow hedges			
Foreign currency risk			
Cross currency swaps (GBP:EUR) fixed			
-Notional amount (£m)	**254**	**645**	**-**
-Average exchange rate	**1.19**	**1.25**	**-**
-Average net interest rate: pay leg	**(0.87%)**	**(1.46%)**	**-**

TESCO CORPORATE TREASURY SERVICES PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE 52 WEEKS ENDED 27 FEBRUARY 2021 (continued)

14. FINANCIAL RISK FACTORS (continued)

The following table sets out the details of the hedged exposures covered by the Company's fair value hedges.

	Liabilities		
	Carrying amount	Accumulated amounts of fair value adjustments on hedged item	Change in fair value for calculating hedge ineffectiveness
At 27 February 2021	**£m**	**£m**	**£m**
Fair value hedges			
Interest rate risk			
MTNs (a) (b)	(2,145)	10	(58)

(a) Classified as borrowings
(b) There were no residual hedge adjustments (accumulated amounts of fair value hedge adjustments remaining in the balance sheet for any unhedged items that have ceased to be adjusted for hedging purposes).

	Liabilities		
	Carrying amount	Accumulated amounts of fair value adjustments on hedged item	Change in fair value for calculating hedge ineffectiveness
At 29 February 2020	**£m**	**£m**	**£m**
Fair value hedges			
Interest rate risk			
MTNs (a) (b)	(1,078)	(30)	21

(a) Classified as borrowings
(b) There were no residual hedge adjustments (accumulated amounts of fair value hedge adjustments remaining in the balance sheet for any unhedged items that have ceased to be adjusted for hedging purposes).

The following table sets out information regarding the change in value of the hedged item used in calculating hedge ineffectiveness as well as the impacts on the cash flow hedge reserves and currency basis reserve.

			Cash flow hedge reserve and currency basis reserve (a)	
At 27 February 2021	**Hedging instrument**	**Change in fair value for calculating hedge ineffectiveness £m**	**Continued hedges £m**	**Discontinued hedges £m**
Interest rate risk				
MTNs	Cross currency swaps	25	0	(4)

(a) Excludes deferred tax

			Cash flow hedge reserve and currency basis reserve (a)	
At 29 February 2020	**Hedging instrument**	**Change in fair value for calculating hedge ineffectiveness £m**	**Continued hedges £m**	**Discontinued hedges £m**
Interest rate risk				
MTNs	Cross currency swaps	(21)	1	-

(b) Excludes deferred tax

TESCO CORPORATE TREASURY SERVICES PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE 52 WEEKS ENDED 27 FEBRUARY 2021 (continued)

14. FINANCIAL RISK FACTORS (continued)

Hedge ineffectiveness resulting from cash flow hedging or fair value hedging in the year was immaterial.

The principal, potential source of ineffectiveness has been identified as periodic (credit) valuation adjustments made to the hedging instruments when marked-to-market which are not reflected in the periodic repricing of the associated hedged items. Historically, such adjustments have not resulted in significant hedge ineffectiveness and even post COVID-19, the ineffectiveness caused by the credit adjustments is not likely to be significant in future reporting periods. Since 100% of the notional amount of the hedging instruments are designated against the equivalent principal amount of the associated hedged items, the hedge ratio for all live hedges is 1:1.

The following table presents a reconciliation by risk category of the cash flow hedge reserve and analysis of other comprehensive income in relation to hedge accounting:

	Cash flow hedge reserve *£m*	Cost of hedging reserve *£m*	*Line item*
At 29 February 2020	(2)	3	
Foreign currency risk			
Cross currency swaps			
-Net fair value gains/(losses)	28	(4)	
-Amount reclassified to income statement	(30)	-	Net finance costs
Tax	-	1	
At 27 February 2021	(4)	-	

Interest rate risk

Interest rate risk arises from long term debt, cash deposits and overdrafts.
During 2021 and 2020 net debt was managed using derivative instruments to hedge interest rate risk as follows:

	Fixed £m	**Floating £m**	**2021 £m**	Fixed £m	Floating £m	2020 £m
Cash and cash equivalents	**-**	**2**	**2**	-	289	289
Short-term investments	**-**	**1,009**	**1,009**	-	1,076	1,076
Bank and Other Borrowings	**(3,209)**	**(312)**	**(3,521)**	(2,626)	(543)	(3,169)
Amounts owed to Group undertakings	**(1,138)**	**(5,259)**	**(6,397)**	(5,012)	(3,645)	(8,657)
Amounts owed by joint ventures	**28**	**-**	**28**	28	-	28
Amounts owed by Group undertakings	**214**	**9,663**	**9,877**	5,921	6,361	12,282
Derivative effect:						
Interest rate swap	**1,435**	**(1,435)**	**-**	1,045	(1,045)	-
Cross-currency swap	**650**	**(650)**	**-**	-	-	-
Total	**(2,020)**	**3,018**	**998**	(644)	2,493	1,849

Credit risk

Credit risk arises from cash and cash equivalents, loans receivable and financial instruments with banks and financial institutions. To limit this risk where possible financial transactions take place with counterparties who have a strong credit rating and within defined exposure limits.

The net counterparty exposure under derivative contracts is £172m (2020: £262m). The Company considers its maximum credit risk to be £11,120m (2020: £13,937m).

TESCO CORPORATE TREASURY SERVICES PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE 52 WEEKS ENDED 27 FEBRUARY 2021 (continued)

14. FINANCIAL RISK FACTORS (continued)

Counterparty credit rating
The table below provides detail of derivative financial assets by long term credit rating of investment-grade rated counterparties:

			2021					2020		
Rating	**AAA**	**AA**	**A**	**BBB**	**Total**	AAA	AA	A	BBB	Total
Derivative financial assets										
Interest rate swaps	**-**	**3**	**19**	**6**	**28**	-	4	29	-	33
Cross currency swaps	**-**	**-**	**32**	**3**	**35**	-	-	102	2	104
Index Linked swaps	**-**	**-**	**105**	**66**	**171**	-	-	95	70	165
Forward contracts	**-**	**1**	**28**	**80**	**109**	-	4	34	57	95
Total	**-**	**4**	**184**	**155**	**343**	-	8	260	129	397

14. FINANCIAL RISK FACTORS (continued)

Liquidity risk

Liquidity risk arises from the maturity profile associated with the borrowings in issuance. This risk is managed via a pooling agreement between the company, other Tesco subsidiaries and financial institutions. The overall liquidity risk is aligned to those of the Tesco Group. These are outlined in the Group Annual Report. Expected maturity of undiscounted cash flows is consistent with the contractual maturities shown below.

At 27 February 2021	Due within 1 year £m	Due between 1 and 2 years £m	Due between 2 and 3 years £m	Due between 3 and 4 years £m	Due between 4 and 5 years £m	Due beyond 5 years £m
Bank and other borrowings	**(312)**	**-**	**(650)**	**(410)**	**(400)**	**(1,750)**
Interest payments on borrowings	**(48)**	**(50)**	**(50)**	**(41)**	**(30)**	**(77)**
Amounts owed to Group undertakings	**(3,382)**	**-**	**-**	**(3,017)**	**-**	**-**
Derivative and other financial liabilities						
Net settled derivative contracts – receipts	**17**	**18**	**19**	**21**	**5**	**-**
Net settled derivative contracts – payments	**(13)**	**(15)**	**(38)**	**(96)**	**(72)**	**(165)**
Gross settled derivative contracts – receipts	**2**	**2**	**2**	**1**	**1**	**2**
Gross settled derivative contracts – payments	**(7)**	**(8)**	**(10)**	**(11)**	**(12)**	**(61)**
Total	**(3,743)**	**(53)**	**(727)**	**(3,553)**	**(508)**	**(2,051)**

At 29 February 2020	Due within 1 year £m	Due between 1 and 2 years £m	Due between 2 and 3 years £m	Due between 3 and 4 years £m	Due between 4 and 5 years £m	Due beyond 5 years £m
Bank and other borrowings	**(800)**	**-**	**-**	**(645)**	**(645)**	**(1,045)**
Interest payments on borrowings	**(43)**	**(41)**	**(41)**	**(41)**	**(32)**	**(21)**
Amounts owed to Group undertakings	**(6,366)**	**(2,275)**	**(25)**	**-**	**-**	**-**
Derivative and other financial liabilities						
Net settled derivative contracts – receipts	**12**	**12**	**13**	**33**	**7**	**-**
Net settled derivative contracts – payments	**(40)**	**(15)**	**(12)**	**(37)**	**(126)**	**(242)**
Gross settled derivative contracts – receipts	**3,408**	**101**	**-**	**-**	**-**	**-**
Gross settled derivative contracts – payments	**(3,496)**	**(109)**	**-**	**-**	**-**	**-**
Total	**(7,325)**	**(2,327)**	**(65)**	**(690)**	**(796)**	**(1,308)**

14. FINANCIAL RISK FACTORS (continued)

Foreign exchange risk

The Company is exposed to foreign exchange risk via non-GBP inter-company loans to and from non-UK subsidiaries. Where appropriate these are hedged via foreign currency derivatives and borrowings in matching currencies. These are not formally designated as hedges and gains and losses on hedges and hedged loans will naturally offset.

In addition foreign exchange risk arises from borrowings issued in currencies other than sterling. To mitigate this risk the Company enters derivatives with matching notional values or lending to other Group subsidiaries in matching currency where appropriate.

Market rate risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises of three risk: interest rate risk, currency risk and other price risk, such as equity price risk and commodity risk. Financial instruments affected by market risk include loans and borrowings and investments.

Capital risk

The Company's objectives when managing capital risk (defined as net debt plus equity) are aligned to those of the Tesco Group. These are outlined in the Tesco PLC Annual Report 2021.

For the purpose of the Company's capital management, capital includes issued ordinary shares and other equity reserves attributable to the equity shareholders of the parent. The primary objective of the company's capital management is to maximise the shareholder value.

The Company manages its capital structure and makes adjustments in light of changes in economic conditions and the requirements of any financial covenants. To maintain or adjust the capital structure, the company may adjust the dividend payment to shareholders, return capital or issue new shares.

No changes were made in the objectives, policies or processes for managing capital during the 52 weeks ended 27 February 2021 and 53 weeks ended 29 February 2020.

Business risk

The COVID-19 outbreak remains at a worldwide pandemic status. The Company is, by virtue of its lending to other Group and related party entities, especially Tesco Group operating subsidiaries around the world, exposed to the impact of the pandemic. In the event of a prolonged downturn as a result of the pandemic and Government's responses, Group companies and related parties borrowing from the Company may be unable to make interest and/or principal repayments when they are due.

In order to mitigate this risk the Company has access to capital markets which allow access to new funds, which in turn would be used to make interest and capital repayments on existing debt.

In addition the COVID-19 pandemic has resulted in additional volatility in the financial markets and therefore valuation of derivatives mainly in relation to their corresponding credit adjustments.

The full financial impact of the pandemic for 2021/22 remains impossible to predict with a high degree of certainty. The wider Tesco Group continues to assess, monitor and where possible mitigate the risks and impacts of the pandemic upon the Company and its stakeholders.

14. FINANCIAL RISK FACTORS (continued)

IBOR reform

The Company has early adopted the 'Interest rate benchmark reform' amendments Phase 2 to IFRS 9 in the current year as well as early adopting Phase 1 in the prior year. This allows the Company to continue hedge accounting for its benchmark interest rate exposures during the period of uncertainty arising from interest benchmark reforms. The Company will continue to apply these amendments (Phase 1 and 2) until the uncertainty arising from interest rate benchmark reform is no longer present with respect to timing and amount of the interest rate benchmark cash flows.

None of the Company's current GBP LIBOR or EURIBOR -linked contracts include adequate and robust fall-back provisions for a cessation of the referenced benchmark interest rate. The Company is monitoring the market and output from various industry working groups managing the transition to new benchmark interest rates and will look to implement fall-back language for the different instruments and IBORs when appropriate. For the Company's derivatives, the International Swaps and Derivatives Association (ISDA) fall-back clauses were made available at the end of 2020 and the Company will begin discussion with its banks with the aim to implement this language into its ISDA agreements in 2021.

Details of the hedging relationships for which the Company has applied the 'interest rate benchmark reform' amendments are given below. These relate to the utilisation of derivatives to achieve the desired mix of fixed and floating debt.

£m		Carrying Value				
Hedging Instrument	Notional	Asset	Liability	Interest rate benchmark	Hedged item	Hedging relationship
Cross Currency Interest rate swaps	650	(34)	-	EURIBOR	MTNs	Fair value hedge
Interest rate swaps	400	14	-	LIBOR	MTN	Fair value hedge

Sensitivity analysis

The following table shows the illustrative effect on the Income Statement at the balance sheet date, from changes in interest rates and currency exchange rates that are reasonably possible where there have recently been significant movements. The main interest sensitivity relates to interest rate changes which apply to cash and overdraft balances.

	2021 Income gain/(loss) £m	2020 Income gain/(loss) £m
1% increase in interest rates	**30**	25
10% appreciation of the Euro	**(7)**	(2)
10% appreciation of the US Dollar	**(2)**	(7)
5% appreciation of the Hungarian forint	**4**	(2)
0.25% Increase in Inflation	**16**	29

15. SHARE CAPITAL

	2021 £m	2020 £m
Authorised share capital:		
100,000,001 ordinary shares of £1 each (2020: 100,000,001)	**100**	100

	2021 £m	2020 £m
Allotted, called up and fully paid:		
100,000,001 ordinary shares of £1 each (2020: 100,000,001)	**100**	100

16. SHARE PREMIUM ACCOUNT

	2021 £m	2020 £m
At 29 February 2020	**100**	100
At 27 February 2021	**100**	100

17. ULTIMATE GROUP UNDERTAKING

The Company’s immediate and ultimate parent undertaking and controlling party is Tesco PLC which is registered in England and Wales. The results of the Company are included in the consolidated financial statements of Tesco PLC, which is the smallest and largest group to consolidate these financial statements and are available from Tesco House, Shire Park, Kestrel Way, Welwyn Garden City, AL7 1GA, United Kingdom.

18. EVENTS AFTER THE REPORTING PERIOD

In June 2021, the board subscribed for shares in Tesco Corporate Treasury Services Europe DAC, a newly incorporated company in the Republic of Ireland, to become a wholly-owned subsidiary of the Company. This subsidiary will act as a financing company to raise or borrow money or capital including by way of, without limitation, issuing debt under commercial paper note and/or euro medium-term note programmes and to carry on other treasury business on behalf of the Tesco Group.